

LME seeks to improve Al alloy contract

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The London Metal Exchange is conducting a study into its aluminium alloy contract, chief executive Martin Abbott said at the Bureau of International Recycling (BIR) conference in Monaco on June 3.

"One of my colleagues is conducting a very intensive study into the alloy contract... we expect to have a conclusion some time over the summer," Abbott said.

Since its launch in 1992 activity on the alloy contract has been rather lacklustre and the LME now wants to see what the market requires from the contract and how to inject more liquidity into it, market sources said.

"They want to breathe some life into the contract. They are looking to see if they can make it more realistic," a market source said.

Abbott said the more recently launched North American special aluminium alloy contract (Nasaac) has attracted a greater following. The LME study, he said, aims to discover why this is the case.

MB spoke to several alloy producers in the UK and a large proportion of them expressed deep misgivings over the contract.

"It's a bit of a weird contract: we don't use it for anything," one alloy producer said.

With few people in the industry using the alloy contract, it does not react to the market, several producers said. "It's crazy really. It's a physical market that's supposed to reflect the market, but no one's really using it," the producer said.

One of the issues the study of the alloy contract will undoubtedly flag up is the lack of producers using the LME to hedge their secondary aluminium.

But producers have told MB they have come up against barriers from brokers when attempting to use the contract to hedge.

"Simplistically, as a hedging contract it doesn't work," a second producer said.

A third alloy producer said he was told the amount of material he wanted to hedge was too small, while another was told the length of time he wanted to hedge for was too long.

"The level of business I was talking about was too small for them, it was not viable for them, which makes a farce out of it all really," a fourth producer said.

While these issues are down to the actions of individual broker members on the LME, rather than the exchange itself, they will undoubtedly need addressing once the results of the study are known.